



K3 BUSINESS TECHNOLOGY GROUP PLC
("K3" or "the Group" or "the Company")

Provider of business-critical software solutions focused on fashion and apparel brands.

Interim results for the six months to 31 May 2022

Key Points

Financial

- First half results from continuing operations in line with management expectations
- Revenue from continuing operations of £19.9m (2021: £20.9m)
 - recurring or predictable income² accounted for £14.7m or 74% of the total (2021: £14.8m or 71%)
- Gross margin increased to 60% (2021: 58%), reflecting increased margins in both units, K3 Products and Third-party Solutions
- Adjusted EBITDA¹ of £1.0m (2021: £0.9m)
- Reported loss before tax from continuing operations of £2.8m (2021: £2.5m)
 - this is after depreciation & amortisation, amortisation of acquired intangibles, exceptional reorganisation and acquisition costs, and share-based payment charges, which totalled £3.6m (2021: £3.4m)
- Adjusted loss per share⁵ from continuing operations was 4.9p (2021: loss of 11.3p)/ Reported loss per share from continuing operations earnings per share was 5.9p (2021: loss of 10.7p) includes profit from discontinued activities
- Net cash of £1.4m (2021: £4.4m). Financial year-end position is expected to close significantly higher, reflecting strong seasonal weighting of cash inflows

**2021 results have been restated following the classification of K3 FDS Sage business as discontinued activities*

Operational

- Acquisition of ViJi, sustainability-focused software developer, in January 2022 significantly broadened offering in supply-chain transparency and traceability, increasing operational investment by £0.2m
- K3 Products:
 - generated revenue of £6.5m and gross profit of £5.2m (2021: £7.9m and £6.0m)
 - gross margin increased to 80.2% from 76.4%, reflecting cost reductions
 - annualised revenue value from strategic products up 12% to £4.3m
 - contribution from legacy point-of-sale products continued to decrease, as expected
 - initiatives to enhance future channel partner sales and build new revenues from USA
- Third-party Solutions:
 - generated revenue of £13.4m and gross profit of £6.7m (2021: £13.0m and £6.1m)
 - gross margin increased to 49.7% (2021: 46.9%), reflecting better services chargeability, offshoring and higher licence and maintenance income
 - SYSPRO performed well and has established a good back-log and new business pipeline
 - Global Accounts continues to grow, with good visibility of ongoing services work
- Major IT system upgrade begun, expected to improve operational efficiency
- Rebranding programme completed and new marketing initiatives launched to support new strategy

Marco Vergani, Chief Executive Officer of K3 Business Technology Group plc, said:

“We are executing against the new growth strategy that we established in Q4 last year and have made encouraging progress in the first half.

“K3 Products has clear growth opportunities in its fashion and apparel markets and we are focusing on three critical areas for customers - Sustainability, Omni-channel and Business Insights. The acquisition of the Sustainability-focused software developer, ViJi, in the period, will enhance our offering here.

“Third-party Solutions performed well and remains a significant cash generator. We are investing in products and delivery resource to support growth.

“The second half of the financial year is typically stronger than the first, with substantial cash inflows due from software licence and support and maintenance contract renewals. While there are increasing macroeconomic uncertainties, we remain confident of our long-term strategic direction and will continue to focus on growth, cash and costs.”

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CHIEF EXECUTIVE OFFICER'S STATEMENT

Introduction

I am pleased to present K3's interim results for the six months to 31 May 2022, a period in which the Group continued to make progress in line with its new strategic growth plan, established in the second half of the last financial year.

Against a backdrop of increasing macroeconomic uncertainties, the Group's first half performance was in line with management expectations. Revenue from continuing operations was £19.9m (2021: £20.9m), gross margins improved, especially at K3 Products, and adjusted EBITDA was £1.0m (2021: £0.9m). Net cash at 31 May 2022 stood at £1.4m, with the second half expected to close significantly higher as cash inflows from software licence and maintenance and support contract renewals, which fall due in this period, come through.

As previously reported, our new strategic growth plan identified opportunities across all core activities and has clearly defined the Group's long-term vision, priorities, and objectives. We are now executing against this plan, which will drive recurring revenues. We are particularly focused on the development and growth of our strategic products for the fashion and apparel markets, and related large retail brands. Retail businesses in these markets are contending with the need for profound digital transformation as they adapt their models and systems to engage with customers and suppliers in new and more agile ways. We see a substantial opportunity in three critical areas; Sustainability (especially supply chain traceability), Omni-channel and 'unified inventory' (to create an integrated digital and physical shopping experience) and Business Insights (to extract actionable intelligence from data collected).

We are now integrating our fashion ERP solutions, K3|fashion and K3|pebblestone, which are based on Microsoft Dynamics, with K3|imagine, our 'headless' cloud commerce platform (which integrates readily with any IT infrastructure) and K3|ViJi, a strategic new software suite acquired in January 2022. This integration programme adds further power to our solutions and market positioning and enables us to offer customers a simple and highly effective route to digital transformation in critical areas of their businesses, driving their sustainability agenda and providing a strong return on investment.

The acquisition of ViJi, the sustainability-focused software developer, has added a compelling suite of products that addresses supply chain transparency, significantly broadening our existing Sustainability capabilities. Market interest in Sustainability solutions is growing, driven both by consumer demands and emerging legislation requiring brands to certify the origins and manufacturing standards of their products.

As part of the ongoing development of the Group, we started a major programme in the period to upgrade and unify our IT systems. This will improve efficiencies and simplify operations. The programme covers Finance, Sales, Customer Support, and Project Management processes, and we expect it to be completed over the next 12 months. In the first half, we also completed a rebranding programme and launched new marketing initiatives, reflecting our revised vision and strategy, which will further support K3's position as a market leader in the fashion industry.

In January 2022, Microsoft named K3 as one of its key Independent Software Vendors within the Microsoft Retail Cloud Platform. This provides additional endorsement of our capabilities, and we are deepening our existing collaboration with Microsoft to generate demand and opportunities, as well as expanding our Channel Partner Network. K3|fashion continues to be Microsoft's preferred solution for the fashion and apparel vertical and K3 will be a featured partner in Microsoft's FY23 partner investments and incentives launch in October 2022.

While the conflict in Ukraine and global instability has created greater uncertainty, the need for digital transformation remains a high priority for our target sectors. Our products offer exciting growth potential, and our expertise in the retail sector, particularly in fashion, apparel & design, online, and direct-to-consumer brands, is a significant strength.

Financial Results

Results from continuing operations

In the six months ended 31 May 2022, the Group generated total revenue from continuing operations of £19.9m (2021: £20.9m), with recurring or predictable revenue² accounting for £14.7m or 74% of the total (2021: £14.8m or 71%). Recurring revenue from strategic products (i.e. SaaS and maintenance and support income)³ accounted for £1.3m of total revenue (2021: £1.4m).

Gross margin increased to approximately 60% (2021: 58%), reflecting improved gross margin in both K3 Products and Third-party solutions. Gross profit for the period was £11.9m (2021: £12.1m).

Reported administrative expenses decreased slightly to £14.3m (2021: £14.5m) and underlying support/administrative expenses⁶ were also lower at £11.7m (2021: £12.0m). This was driven by more focused product development resourcing and lower people costs, mainly in the legacy support operations.

Adjusted EBITDA¹ from continuing activities increased to £1.0m (2021: £0.9m), which also included a reduction of capitalised development cost of c.£0.3m.

The reported loss before tax from continuing activities was £2.8m (2021: £3.7m). This is after depreciation and amortisation of £3.0m (2021: £3.8m), amortisation of acquired intangibles of £nil (2021: £0.3m), exceptional reorganisation costs of £0.1m (2021: income of £0.9m), acquisition costs of £0.1m (2021: £nil) and share-based charges of £0.3m (2021: £0.2m), which together amounted to £3.6m (2021: £3.4m).

The adjusted loss per share⁵ from continuing operations was 4.9p (2021: 11.3p). This figure excludes depreciation and amortisation, amortisation of acquired intangibles, exceptional reorganisation costs, acquisition costs and share-based charges, and is net of the related tax charge of £0.1m (2021: tax credit £0.1m).

Reported loss per share from continuing operations reduced to 5.9p (2021: loss of 10.7p). Reported loss per share was 6.2p (2021: earnings of 11.6p, which includes profit from discontinued activities of Starcom and K3 FDS).

Balance sheet and cash flows

The Group's cash flow over the financial year remains heavily weighted towards the second half. This reflects the significant cash inflows from annual software licence and maintenance and support renewals, with the largest element being SYSPRO renewals. The SYSPRO renewal rate is typically c.98%.

The cash outflow from operations reduced to £5.2m (2021: £7.4m), with the comparative period in 2021 including the profit on disposal of the Starcom unit (£10.3m) and the removal of the associated negative working capital balances of £0.5m. The profit on disposal was updated between 31 May 2021 and 30 November 2021 by an onerous contract adjustment of £1.1m. The comparative period in 2021 also included £1.3m of repayments relating to coronavirus tax deferment schemes. Finance expenses were substantially reduced to £0.2m (2021: £1.2m) as a result of the equity conversion of the £3.0m shareholder loan. The equity conversion incurred £0.6m of costs, recognised in 2021.

Amortisation decreased to £nil (2021: £0.3m) following the write-off of intangibles in the prior period.

Net cash used in investing activities amounted to £1.6m (2021: inflow of £12.5m, which included a £13.8m net cash inflow from the sale of businesses). This included spend on property, plant and equipment of £0.4m (2021: £nil), which mainly related to the unification of internal systems (2021: £nil), development expenditure capitalised of £1.0m (2021: £1.3m) and ViJi acquisition costs of £0.2m (2021: £nil).

OPERATIONAL REVIEW

The Group's results for the six months ended 31 May 2022, together with comparatives for the same period in 2021, are summarised in the tables below. The segmental analysis provides further information on the key areas of activity, K3 Products and Third-party Solutions.

2021 comparatives have been restated following the classification of Starcom and the Sage reseller business as discontinued activities.

	Revenue		Gross profit		Gross margin	
	2022	2021 (restated)	2022	2021 (restated)	2022	2021 (restated)
	£m	£m	£m	£m		
K3 Products	6.5	7.9	5.2	6.0	80.0%	75.9%
Third-party solutions	13.4	13.0	6.7	6.1	50.0%	46.9%
Total	19.9	20.9	11.9	12.1	59.8%	57.9%

	2022	2021
	£m	£m
Recurring or predictable revenue ²	14.7	14.8
Recurring revenue from K3 strategic products (SaaS, maintenance, annual contracts and support)	1.3	1.4

K3 Products

K3 Products comprises:

- K3 strategic products focused on fashion & apparel, principally K3|fashion, K3|ViJi, K3|pebblestone and K3|imagine; and
- other stand-alone point solutions and apps, including our legacy point-of-sale (“POS”) products.

Revenue generated by K3 Products was £6.5m (2021: £7.9m). This decrease mainly reflected revenue recognition of larger multi-year deals in the last financial year as well as some deal ‘lumpiness’. We are now moving to a trend of customers buying annual software licences and progressively ramping up licence procurement, thereby increasing overall licence sizes. Gross profit was £5.2m (2021: £6.0m), and gross margin rose by 3.8 percentage points to 80.0% (2021: 75.9%), benefiting from a reduction in the cost base.

The value of strategic products continues to grow, helped by both new customer wins and existing customers taking more product. The total annualised revenue value of software licences from strategic products as at 31 May 2022 increased by 12% to £4.3m (31 May 2021: £3.9m) and at 31 July 2022 annualised revenue value stood at £4.9m. Just after the period end, in June 2022, the largest annual recurring revenue contract for K3|fashion was signed. Worth £0.2m annually, it was secured via our channel partner network with an existing customer. It continues the trend of larger licence contracts for this product and the trend for new customers to initially buy a small number of licences and subsequently acquire many more as the product is rolled out through their business. We have focused additional resource on channel partner management and, in particular, have expanded the commercial team in North America. We believe there is scope to increase sales of K3|fashion in this region to a significant percentage of the overall total.

We are integrating our new Sustainability suite, K3|ViJi, with our existing strategic products, and have also begun to offer it selectively as a discrete product to prospects and clients. ViJi’s capabilities tap into growing demand, and we will continue to develop its solution suite.

As expected, the contribution from the legacy point-of-sale business reduced in the period, reflecting the legacy nature of this product set, although the contribution from maintenance and support contracts remained steady.

Third-party Solutions

Third-party Solutions comprises:

- our SYSPRO activity, which is focused on the manufacturing and distribution sector; and
- Global Accounts, which provides specialist services.

Revenue increased by 3% to £13.4m (2021: £13.0m) and gross profit was 10% higher at £6.7m (2021: £6.1m), with gross margin up by 3.1 percentage points to 50.0% (2021: 46.9%). The improvement in gross margin was driven by a combination of better services chargeability, offshoring, and increased licence and maintenance income.

SYSPRO continued to perform well and has established a solid contracted services back-log and a good pipeline of new business opportunities, with larger deal sizes. We have continued to invest in delivery resource and to develop intellectual property that supplements and enhances SYSPRO functionality.

Global Accounts continued to grow, supporting five new Inter IKEA Concept franchisee store openings in the six months to 31 May 2022. This included the first IKEA store in Oman and the largest IKEA store globally in the Philippines. Visibility on future activity is very good. We have recently completed the first IKEA store opening in Chile with a new franchisee, as well as a second store opening in Mexico. The revenue benefits are reflected in increased licences and recurring revenue. We have also improved the unit’s gross margin through better utilisation and offshoring, and are continuing to recruit to satisfy increasing demand.

Central Costs

Underlying support/administrative costs⁶ decreased by 3% to £10.9m (2021: £11.2m). This reflected lower people costs across all segments. Including capitalised development, costs reduced by 5% to £11.9m (2021: £12.6m).

Outlook

K3 has a clear growth strategy for both K3 Products and Third-party Solutions, and we are highly focused on the growth opportunities we have identified across both segments, as well as on cash generation and cost management. Once completed, the IT upgrade programme will support operational efficiencies and improved management processes.

Trading in June and July has been encouraging with a good level of deal closures, ahead of the same period last year, across both K3 Products and Third-party Solutions. Average software deal size is increasing, and we are satisfied with the level of new business opportunities in the Group's overall pipeline. There are attractive potential deals at both K3 Products and Third-party Solutions. We have also released new modules that support our strategic products. While attrition in our non-core legacy products customer base will continue, we are focused on providing a migration path to our strategic products for key accounts.

There are uncertainties ahead, which means that it remains prudent to be cautious about the rate and pace of deal closures. Nonetheless, the opportunity for K3 Products to participate more strongly in the fundamental shift under way in the retail sector, driven by the rise of digital shopping, is exciting. Our strongly cash-generative Third-party Solutions business has grown its software sales, maintenance and support income, as well as its order book, and we now expect the services revenue to grow accordingly.

The second half of the financial year is seasonally our stronger half, delivering high cash inflows from software licence and maintenance and support contract renewals, and we expect this weighting to be replicated this year.

Marco Vergani
Chief Executive Officer

**Consolidated Income Statement
for the six months ended 31 May 2022**

	Unaudited 6 months to 31 May 2022 £'000	Restated[^] Unaudited 6 months to 31 May 2021 £'000	Audited 12 months to 30 November 2021 £'000
Revenue	19,939	20,854	45,267
Cost of sales	(8,047)	(8,747)	(18,432)
Gross profit	11,892	12,107	26,835
Administrative expenses	(14,295)	(14,514)	(33,106)
Impairment losses on financial assets	(165)	(125)	(118)
Adjusted EBITDA	994	880	4,357
Depreciation and amortisation	(3,024)	(3,824)	(6,797)
Amortisation of acquired intangibles	-	(284)	(518)
Exceptional Impairment	-	-	(1,421)
Exceptional reorganisation costs	(118)	881	(1,570)
Acquisition costs	(98)	-	-
Share-based payment charge	(322)	(185)	(440)
Loss from operations	(2,568)	(2,532)	(6,389)
Finance expense	(219)	(1,167)	(1,433)
Loss before taxation from continuing operations	(2,787)	(3,699)	(7,822)
Tax credit/(expense)	156	(951)	(939)
Loss after taxation from continuing operations	(2,631)	(4,650)	(8,761)
(Loss)/profit after taxation from discontinued operations	(130)	9,689	12,292
(Loss)/profit for the period/year	(2,761)	5,039	3,531

[^] The results for the 6 month period ended 31 May 2021 have been restated to present K3 FDS Limited as discontinued operations.

All the loss for the year is attributable to equity shareholders of the parent.

	Note	Unaudited 6 months to 31 May 2022	Restated[^] Unaudited 6 months to 31 May 2021	Audited 12 months to 30 November 2021
(Loss)/profit per share				
Basic and diluted earnings/(loss) per share		(6.2)p	11.6p	8.0p
Basic and diluted loss per share from continuing operations		(5.9)p	(10.7)p	(19.9)p
Adjusted earnings per share		(4.9)p	(11.3)p	(13.8)p

**Consolidated Statement of Comprehensive Income
for the six months ended 31 May 2022**

Notes	Unaudited 6 months to 31 May 2022 £'000	Restated^ Unaudited 6 months to 31 May 2021 £'000	Audited 12 months to 30 November 2021 £'000
(Loss)/profit for the period/year	(2,761)	5,039	3,531
Other comprehensive income			
Exchange differences on translation of foreign operations	7	(842)	(1,085)
Total comprehensive income/(expense) for the period/year	(2,754)	4,197	2,446

All the total comprehensive income/(expense) is attributable to equity holders of the parent. All the other comprehensive income/(expense) will be reclassified subsequently to profit or loss when specific conditions are met. None of the items within other comprehensive income/(expense) had a tax impact.

**Consolidated Statement of Financial Position
as at 31 May 2022**

	Notes	Unaudited as at 31 May 2022 £'000	<u>Restated</u> <u>Unaudited</u> as at 31 May 2021 £'000	Audited as at 30 November 2021 £'000
ASSETS				
Non-current assets				
Property, plant and equipment		1,661	1,629	1,551
Right-of-use assets		1,098	1,851	1,709
Goodwill		25,475	25,733	24,772
Other intangible assets		5,902	8,408	6,648
Deferred tax assets		1,010	681	1,010
Total non-current assets		35,146	38,302	35,690
Current assets				
Stock		448	497	467
Trade and other receivables		11,742	10,387	10,605
Cash and cash equivalents		4,322	6,295	9,146
Total current assets		16,512	17,179	20,218
Total assets		51,658	55,481	55,908
LIABILITIES				
Non-current liabilities				
Lease liabilities		223	926	135
Provisions		783	472	1,129
Deferred tax liabilities		1,288	925	1,288
Total non-current liabilities		2,294	2,323	2,552
Current liabilities				
Trade and other payables		10,610	11,318	14,456
Current tax liabilities		632	1,577	509
Lease liabilities		951	943	1,623
Borrowings		2,949	1,901	113
Provisions		854	122	854
Total current liabilities		15,996	15,861	17,555
Total liabilities		18,290	18,184	20,107
EQUITY				
Share capital		11,183	11,183	11,183
Share premium account		31,451	31,451	31,451
Other reserves		11,151	11,151	11,151
Translation reserve		1,545	1,781	1,538
Accumulated losses		(21,962)	(18,269)	(19,522)
Total equity attributable to equity holders of the parent		33,368	37,297	35,801
Total equity and liabilities		51,658	55,481	55,908

**Consolidated Cash Flow Statement
for the six months ended 31 May 2022**

	Notes	Unaudited 6 months to 31 May 2022 £'000	Restated [^] Unaudited 6 months to 31 May 2021 £'000	Audited 12 months to 30 November 2021 £'000
Cash flows from operating activities				
(Loss)/profit for the period		(2,761)	5,039	3,531
Adjustments for:				
Finance expense		219	1,160	1,448
Tax (income)/expense		(156)	841	829
Depreciation of property, plant and equipment		300	268	591
Depreciation of right-of-use assets		678	869	963
Amortisation of intangible assets and development expenditure		2,060	3,219	5,639
Impairment of intangible assets		-	-	1,421
Loss on sale of property, plant and equipment		-	-	466
Share-based payments charge		322	185	440
Profit on disposal of discontinued operations, net of tax		-	(10,314)	(11,893)
(Decrease)/increase in provisions		(346)	169	1,558
(Increase)/decrease in trade and other receivables		(1,087)	1,062	(242)
(Decrease) in trade and other payables		(4,658)	(9,863)	(3,896)
Cash (used in)/generated from operations		(5,429)	(7,365)	855
Income taxes		279	(38)	(1,362)
Net cash (used in)/generated from operating activities		(5,150)	(7,403)	(507)
Cash flows from investing activities				
Net cash flow arising on the sale of businesses		-	13,795	14,762
Acquisition of subsidiary		(180)	-	-
Development expenditure capitalised		(1,013)	(1,330)	(3,024)
Purchase of property, plant and equipment		(410)	-	(623)
Net cash (used in)/from investing activities		(1,603)	12,465	11,115
Cash flows from financing activities				
Proceeds from loans and borrowings		1,500	-	4,800
Issue of shares		-	3,000	-
Repayment of loans and borrowings		(83)	(9,253)	(11,571)
Repayment of lease liabilities		(584)	(791)	(1,187)
Interest paid on lease liabilities		(96)	(131)	(202)
Finance expense paid		(26)	(1,051)	(673)
Net cash (used in)/from financing activities		711	(8,226)	(8,833)
Net change in cash and cash equivalents		(6,042)	(3,164)	1,775
Cash and cash equivalents at start of period/year		9,033	7,566	7,566
Exchange losses on cash and cash equivalents		(64)	(8)	(308)
Cash and cash equivalents at end of period/year		2,927	4,394	9,033
Cash and cash equivalents		4,322	6,295	9,146
Bank overdrafts (secured)	8	(1,395)	(1,901)	(113)
Net cash and cash equivalents		2,927	4,394	9,033

**Consolidated Statement of Changes in Equity
for the period ended 31 May 2022**

	Share capital	Share premium	Other reserves	Translation reserve	Accumulated earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 December 2020	10,737	28,897	11,151	2,623	(23,493)	29,915
<i>Changes in equity for the six months ended 31 May 2021</i>						
Profit for the period	-	-	-	-	5,039	5,039
Other comprehensive expense for the period	-	-	-	(842)	-	(842)
Total comprehensive income/(expense)	-	-	-	(842)	5,039	4,197
Share based payment	-	-	-	-	185	185
Issue of shares	446	2,554	-	-	-	3,000
At 31 May 2021	11,183	31,451	11,151	1,781	(18,269)	37,297
<i>Changes in equity for year ended 30 November 2021</i>						
Loss for the year	-	-	-	-	(1,508)	(1,508)
Other comprehensive expense for the year	-	-	-	(243)	-	(243)
Total comprehensive income/(expense)	-	-	-	(243)	(1,508)	(1,751)
Share based payment	-	-	-	-	255	255
At 30 November 2021	11,183	31,451	11,151	1,538	(19,523)	35,800
<i>Changes in equity for six months ended 31 May 2022</i>						
Loss for the period	-	-	-	-	(2,761)	(2,761)
Other comprehensive income for the period	-	-	-	7	-	7
Total comprehensive expense	-	-	-	7	(2,761)	(2,754)
Share based payment	-	-	-	-	322	322
At 31 May 2022	11,183	31,451	11,151	1,545	(21,962)	33,368

1 Segment information

For the six months ended 31 May 2022

	K3 Products	Third- party solutions	Central Costs	Total
	£'000	£'000	£'000	£'000
Total segment revenue	8,676	14,785	-	23,461
Less Inter-segment revenue	(2,186)	(1,337)	-	(3,523)
Software licence revenue	836	1,801	-	2,637
Services revenue	415	8,019	-	8,434
Maintenance & support	4,834	3,614	-	8,448
Hardware and other revenue	406	14	-	420
	6,491	13,448	-	19,939
External revenue	(1,287)	(6,760)	-	(8,047)
Cost of sales	5,204	6,688	-	11,892
Gross profit				
Gross margin	80.2%	49.7%	-	59.6%
Underlying Administrative expenses ⁷	(4,617)	(3,482)	(2,799)	(10,898)
Adjusted EBITDA¹ from continuing operations	587	3,206	(2,799)	994
Depreciation and amortisation	-	-	(3,024)	(3,024)
Exceptional reorganisation costs	-	-	(118)	(118)
Acquisition costs	-	-	(98)	(98)
Share-based payment charge	-	-	(322)	(322)
Loss from operations	587	3,206	(6,361)	(2,568)
Finance expense	-	-	(219)	(219)
Loss before tax and discontinued operations	587	3,206	(6,580)	(2,787)
Tax credit	-	-	156	156
Loss from discontinued operations	-	-	(130)	(130)
Profit/(loss) for the year	587	3,206	(6,554)	(2,761)

1 Segment information (continued)

For the six months ended 31 May 2021

	K3 Products	Third- party solutions	Central Costs	Total
	£'000	£'000	£'000	£'000
Total segment revenue	10,605	14,026	-	24,631
Less Inter-segment revenue	(2,722)	(1,055)	-	(3,777)
Software licence revenue	1,878	1,614	-	3,492
Services revenue	553	8,060	-	8,613
Maintenance & support	4,879	3,256	-	8,135
Hardware and other revenue	573	41	-	614
	7,883	12,971	-	20,854
External revenue	(1,860)	(6,887)	-	(8,747)
Cost of sales	6,023	6,084	-	12,107
Gross profit	76.4%	46.9%	-	58.1%
Gross margin	(4,845)	(3,396)	(2,986)	(11,227)
Underlying Administrative expenses ⁷	1,178	2,688	(2,986)	880
Adjusted EBITDA¹ from continuing operations	-	-	(3,824)	(3,824)
Depreciation and amortisation	-	-	(284)	(284)
Amortisation of acquired intangibles	-	-	(185)	(185)
Exceptional reorganisation costs	-	-	(185)	(185)
Share-based payment charge	1,178	2,688	(6,398)	(2,532)
Loss from operations	-	-	(1,167)	(1,167)
Finance expense	1,178	2,688	(7,565)	(3,699)
Loss before tax and discontinued operations	-	-	(951)	(951)
Tax expense	-	-	9,689	9,689
Profit from discontinued operations	1,178	2,688	1,173	5,039
Profit for the year				

1 Segment information (continued)

For the twelve months ended 30 November 2021

	K3 Products	Third- party solutions	Central Costs	Total
	£'000	£'000	£'000	£'000
Total segment revenue	20,297	32,613	-	52,910
Less inter-segment revenue	(5,512)	(2,131)	-	(7,643)
Software licence revenue	3,316	3,325	-	6,641
Services revenue	1,048	16,277	-	17,325
Maintenance & support	9,091	10,777	-	19,868
Hardware and other revenue	1,331	102	-	1,433
	14,786	30,482	-	45,267
External revenue	(3,653)	(14,780)	-	(18,432)
Cost of sales	11,133	15,702	-	26,835
Gross profit	75.3%	51.5%	-	59.3%
Gross margin	(9,922)	(6,628)	(5,928)	(22,478)
Underlying Administrative expenses ⁷	1,211	9,074	(5,928)	4,357
Adjusted EBITDA¹ from continuing operations	-	-	(6,797)	(6,797)
Depreciation and amortisation	-	-	(518)	(518)
Amortisation of acquired intangibles	-	-	(1,421)	(1,421)
Exceptional impairment	-	-	(1,570)	(1,570)
Exceptional reorganisation costs	-	-	(440)	(440)
Share-based payment charge	1,211	9,074	(16,674)	(6,389)
Loss from operations	-	-	(1,433)	(1,433)
Finance expense	1,211	9,074	(18,107)	(7,822)
Loss before tax and discontinued operations	-	-	(939)	(939)
Tax expense	-	-	12,292	12,292
Profit from discontinued operations	1,211	9,074	(6,754)	3,531
Profit for the year				

2 General information

K3 Business Technology Group Plc is incorporated in England and Wales under the Companies Act (listed on AIM, a market operated by the London Stock Exchange Plc) with the registered number 2641001. The address of the registered office is Baltimore House, 50 Kansas Avenue, Manchester M50 2GL.

The interim condensed consolidated financial statements comprise the company and its subsidiaries, "the Group".

3 Basis of preparation and Going Concern

The financial information set out in this Interim Report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Group's statutory financial statements for the year ended 30 November 2021, prepared in accordance with the international accounting standards in conformity with the requirements of the Companies Act 2006, have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The interim financial information has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards ("IFRS") and on the same basis and using the same accounting policies as used in the financial statements for the year ended 30 November 2021.

The financial information has not been prepared (and is not required to be prepared) in accordance with IAS 34. The accounting policies have been applied consistently throughout the Group for the purposes of preparation of this financial information.

The Interim Report has not been audited or reviewed in accordance with the International Standard on Review Engagement 2410 issued by the Auditing Practices Board.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing this financial information.

4 Significant events

On 27 January 2022, K3 acquired the French sustainability start-up, ViJi SAS. ViJi's products enable brands to trace and authenticate more easily and reliably with the environmental and social credentials of their supply chains. This includes the collection, verification and renewals of supplier certifications. The software also has a consumer-facing component, enabling the digital communication of information on the ethical history of items, including materials, manufacturing processes and sustainability.

On 9 February 2022, the Group granted a further 80,000 Market Priced Share Options and a further 175,000 new Nominal Priced Options to certain PDMRs.

On 11 February 2022, the Group agreed an extension to its Current Revolving Credit Facility with Barclays for £3.5m until 31 March 2023.

On 18 May 2022, 500,000 Market Priced Options and 175,000 Nominal Priced Options were issued to certain PDMRs and employees of the Group.

In May 2022, Jonathan Manley (non-executive director) retired by rotation at the Annual General meeting.

5 ViJi acquisition

On 27 January 2022, K3 purchased 100% of the share capital of ViJi, an innovative software developer with an exciting suite of products focused on sustainability. Based in south-west France, ViJi developed fully scalable software solutions that support the sustainability objectives and strategies of fashion retailers.

The strategic acquisition will complement K3's refocused growth strategy and international customer base as we continue to transform fashion, apparel and select retail markets for good.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	Fair Value
	£'000
Development Costs	53
Other intangibles assets	250
Property, plant and equipment	2
Accounts receivables	35
Cash	30
Bank loans	(138)
Trade and other payables	(35)
Net Assets	<u><u>197</u></u>

Fair value of consideration paid	£'000
Cash on completion	210
Deferred consideration	84
Contingent consideration	588
	<u>882</u>
Goodwill	<u><u>685</u></u>

Net cash outflow arising on acquisition	
Cash consideration	210
Less: cash and cash equivalent balances acquired	(30)
	<u>180</u>

Acquisition costs of £98k arose as a result of the transaction. These have been recognised as part of exceptional administrative expenses in the statement of comprehensive income.

The deferred consideration of £84k (€100k), is to be paid in Cash on the anniversary of the closing date, Contingent consideration capped at £588k (€700k) will be paid as an earn-out in respect of achievement of measures during financial years 2023 and 2024.

6 Discontinued operations

On 26 February 2021, the Group announced that a sale of the Starcom business for consideration of £14.7m had been approved and completed. Starcom had already been classified as a discontinued operation in the prior year as it represented a major line of business for the Group.

The post-tax gain on disposal of the Starcom business was determined as follows:

	Unaudited 6 months to 31 May 2022	Unaudited 6 months to 31 May 2021	Audited 12 months to 30 November 2021
	£'000	£'000	£'000
Cash consideration received	-	14,474	14,474
Total consideration received	-	14,747	14,747
Cash disposed of	-	(1,375)	(1,375)
Net cash inflow on disposal of discontinued operations	-	13,372	13,372
Net assets disposed (other than cash)			
Property, plant and equipment	-	(199)	(199)
Intangibles	-	(3,015)	(3,015)
Right of use asset	-	(454)	(454)
Trade and other receivables	-	(2,404)	(2,404)
Trade and other payables	-	1,958	1,958
	-	(4,114)	(4,114)
Pre-tax gain on disposal of discontinued operations	-	9,258	9,258
Related tax expense	-	-	-
Gain on disposal of discontinued operations	-	9,258	9,258

Trade and other payables includes an onerous contract provision of £1,125k relating to higher than market pricing on the 3 year post completion service agreement with the buyer.

The results of the Starcom business for the year are presented below:

	Unaudited 6 months to 31 May 2022	Unaudited 6 months to 31 May 2021	Audited 12 months to 30 November 2021
	£'000	£'000	£'000
Total Revenue	-	2,309	2,309
Less inter-segment revenue	-	-	-
External revenue	-	2,309	2,309
Cost of sales	-	(845)	(845)
Gross profit	-	1,464	1,464
Administrative expenses	-	(1,011)	(1,011)
Impairment losses on financial assets	-	-	-
Amortisation of acquired intangibles	-	(99)	(107)
Profit from operations	-	354	346
Profit on disposal	-	9,258	9,258
Finance credit	-	9	9
Profit before taxation from discontinued operations	-	9,621	9,613
Tax credit including on gain on asset held for sale	-	110	110
Profit for the year from discontinued operations	-	9,731	9,723
Basic and diluted profit per share from discontinued operations (pence per share)	-	24.8	2.6

The net cashflows incurred by Starcom are as follows:

	Unaudited 6 months to 31 May 2022 £'000	Unaudited 6 months to 31 May 2021 £'000	Audited 12 months to 30 November 2021 £'000
Operating	-	379	628
Investing	-	-	(129)
Financing	-	12,835	(157)
Net cash inflow	-	13,214	342

On 20 September 2021, the Group disposed of the customers and employees of its Sage business to Pinnacle Computing (Support) Ltd for £1.68m.

Formal completion occurred in early October 2021, following a TUPE consultation process in respect of the transfer to Pinnacle of the employees, and the disposal consideration was subject to a downward adjustment of £0.2m in respect of restructuring costs that Pinnacle undertook immediately following completion. The Group maintained ownership of the sales ledger at Completion which was £0.1m at 30 November 2021.

The post-tax gain on disposal of the Sage business was determined as follows:

	Unaudited 6 months to 31 May 2022 £'000	Unaudited 6 months to 31 May 2021 £'000	Audited 12 months to 30 November 2021 £'000
Cash consideration received	-	-	1,475
Total consideration received	-	-	1,475
Cash disposed of	-	-	-
Net cash inflow on disposal of discontinued operations	-	-	1,475
Net assets disposed (other than cash)			
Trade and other receivables	-	-	682
Trade and other payables	-	-	478
	-	-	1,160
Pre-tax gain on disposal of discontinued operations	-	-	2,635
Related tax expense	-	-	-
Gain on disposal of discontinued operations	-	-	2,635

Trade and other payables includes the release of working capital accruals no longer payable following the disposal of the business.

The results of the Sage business for the year are presented below:

	Unaudited 6 months to 31 May 2022	Unaudited 6 months to 31 May 2021	Audited 12 months to 30 November 2021
	£'000	£'000	£'000
External revenue	(46)	2,391	4,011
Cost of sales	(2)	(1,425)	(2,437)
Gross (loss)/profit	(48)	966	1,574
Administrative expenses	(82)	(995)	(1,641)
Impairment losses on financial assets	(1)	(5)	31
(Loss)/profit from operations	(130)	(34)	(36)
	(47)	966	1,574
Disposal (costs)/profit	-	(6)	2,629
Finance credit/(expense)	1	(2)	(24)
Profit before taxation from discontinued operations	(130)	(42)	2,569
Tax credit/(charge) including on gain on asset held for sale	-	-	-
(Loss)/profit for the year from discontinued operations	(130)	(42)	2,569
Basic and diluted (loss)/profit per share from discontinued operations (pence per share)	(0.3)	(0.1)	5.8

The amounts included in the consolidated cashflows related to the Sage business are as follows:

	Unaudited 6 months to 31 May 2022	Unaudited 6 months to 31 May 2021	Audited 12 months to 30 November 2021
	£'000	£'000	£'000
Operating	(131)	(34)	(230)
Investing	-	-	-
Financing	1	(2)	-
Net cash outflow	(130)	(36)	(230)

7 (Loss)/earnings per share

The calculations of (loss)/earnings per share (EPS) are based on the profit/(loss) for the period and the following numbers of shares:

	Unaudited 6 months to 31 May 2022 £'000	Unaudited 6 months to 31 May 2021 £'000	Audited 12 months to 30 November 2021 £'000
<i>Denominator</i>			
Weighted average number of shares used in basic and diluted EPS	44,705,570	43,602,052	44,090,074

Certain employee options and warrants have not been included in the calculation of diluted EPS because their exercise is contingent on the satisfaction of certain criteria that had not been met at the end of the period/year.

	Unaudited 6 months to 31 May 2022 £'000	Unaudited 6 months to 31 May 2021 £'000	Audited 12 months to 30 November 2021 £'000
Loss after tax from continuing operations	(2,631)	(4,650)	(8,761)
Profit after tax from discontinued operations	130	9,689	12,292
(Loss)/profit attributable to ordinary equity holders of the parent for basic and diluted earnings per share	<u>(2,501)</u>	<u>5,038</u>	<u>3,531</u>

The alternative earnings per share calculations have been computed because the directors consider that they are useful to shareholders and investors. These are based on the following profits/(losses) and the above number of shares.

	Unaudited 6 months to 31 May 2022 £'000	Unaudited 6 months to 31 May 2021 £'000	Audited 12 months to 30 November 2021 £'000
Loss after tax from continuing operations	(2,631)	(4,650)	(8,761)
Add back Other Items:			
Amortisation of acquired intangibles	(0)	284	518
Exceptional reorganisation costs	118	(881)	1,605
Exceptional impairment costs	-	-	1,421
Acquisition costs	98	-	-
Shared-based payment charge	322	185	440
Tax (credit)/charge related to Other Items	(102)	132	(1,291)
Loss attributable to ordinary equity holders of the parent for basic and diluted earnings per share from continuing operations before other items	<u>(2,195)</u>	<u>(4,931)</u>	<u>(6,068)</u>

	Unaudited 6 months to 31 May 2022 £'000	Unaudited 6 months to 31 May 2021 £'000	Audited 12 months to 30 November 2021 £'000
(Loss)/profit per share			
Basic and diluted loss per share	(6.2)	11.6	8.0
Basic and diluted (loss)/profit per share from continuing operations	(5.9)	(10.7)	(19.9)
	<u>(0.3)</u>	<u>22.3</u>	<u>27.9</u>
Adjusted loss per share			
Basic and diluted loss per share from continuing operations before other items	(4.9)	(11.3)	(13.8)

8 Loans and borrowings

	Unaudited as at 31 May 2022 £'000	Unaudited as at 31 May 2021 £'000	Audited as at 30 November 2021 £'000
Current			
Bank overdrafts (secured)	1,395	1,901	113
Bank loans (secured)	1,555	-	-
	<u>2,950</u>	<u>1,901</u>	<u>113</u>

9 Net debt

	Unaudited as at 31 May 2022 £'000	Unaudited as at 31 May 2021 £'000	Audited as at 30 November 2021 £'000
Loans and borrowings	(2,949)	(1,901)	(113)
Cash	4,322	6,295	9,146
Net cash (before leases)	<u>1,373</u>	<u>4,394</u>	<u>9,033</u>
Non-current leases liabilities	(223)	(926)	(135)
Current lease liabilities	(951)	(943)	(1,623)
Net Cash	<u>199</u>	<u>2,525</u>	<u>7,275</u>

10 Trade and other payables

	Unaudited as at 31 May 2022 £'000	Unaudited as at 31 May 2021 £'000	Audited as at 30 November 2021 £'000
Trade payables	2,432	2,144	2,330
Other payables	1,437	1,100	704
Accruals	2,539	2,391	5,354
Total financial Liabilities, excluding loans and borrowings, classified as financial liabilities measures at amortised cost	<u>6,408</u>	<u>5,635</u>	<u>8,388</u>
Other tax and social security tax	1,181	2,163	2,704
Contract liabilities	3,021	3,520	3,364
	<u>10,610</u>	<u>11,318</u>	<u>14,456</u>

11 Trade and other receivables

	Unaudited as at 31 May 2022 £'000	Unaudited as at 31 May 2021 £'000	Audited as at 30 November 2021 £'000
Trade receivables	7,797	7,149	7,407
Loss allowance	(726)	(1,089)	(852)
Trade receivables – net	<u>7,071</u>	<u>6,060</u>	<u>6,555</u>
Other receivables	172	128	122
Contract assets	3,423	3,009	3,077
Prepayments	1,076	1,190	851
	<u>11,742</u>	<u>10,387</u>	<u>10,605</u>

12 Tax

	Unaudited 6 months to 31 May 2022 £'000	Unaudited 6 months to 31 May 2021 £'000	Audited 12 months to 30 November 2021 £'000
Current tax (credit)/expense			
Income tax of overseas operations on (losses)/profits for the period/year	(156)	662	676
Adjustment in respect of prior periods	-	-	(80)
Total current tax (credit)/expense	<u>(156)</u>	<u>662</u>	<u>596</u>
Deferred tax (income)/expense			
Origination and reversal of temporary differences	-	(272)	233
Adjustment in respect of prior periods	-	451	-
Total deferred tax expense	<u>-</u>	<u>179</u>	<u>233</u>
Total tax (credit)/expense	<u>(156)</u>	<u>841</u>	<u>829</u>
Income tax (credit)/expense attributable to continuing operations	(156)	951	939
Income tax credit attributable to discontinued operations	-	(110)	(110)
	<u>(156)</u>	<u>841</u>	<u>829</u>

13 Non-statutory information

The Group uses a variety of alternative performance measures, which are non-IFRS, to assess the performance of its operations. The Group considers these performance measures to provide useful historical financial information to help investors evaluate the underlying performance of the business.

These measures, as described below, are used to improve the comparability of information between reporting periods and geographical units, to adjust for exceptional items or to adjust for businesses identified as discontinued to provide information on the ongoing activities of the Group. This also reflects how the business is managed and measured on a day-to-day basis.

1 Adjusted EBITDA – is the loss from continuing activities adjusted to exclude depreciation and amortisation of development costs £3.0m (May 2021: £3.8m, Nov 2021: £6.8m), amortisation of acquired intangibles £nil (May 2021: £0.3m, Nov 2021 £0.5m), exceptional impairment costs £nil (May 2021 £nil, Nov 2021 £1.4m) exceptional reorganisation costs £0.1m (May 2021: £0.8m income, Nov 2021 £1.6m), acquisition costs £0.1m (May 2021: £nil, Nov 2021: £nil), and share-based charges £0.3m (May 2021: £0.2m, Nov 2021 £0.4m).

2 Recurring or predictable revenue – Contracted support, maintenance and services revenues with a framework agreement of 2 years or more.

3 Strategic SaaS, maintenance and support – maintenance and support revenue for Strategic IP within K3 products.

4 Net cash/debt comprises Bank Loans, Shareholder Loans and Overdrafts less Cash and cash equivalents, including Cash and cash equivalents held for sale.

5 Adjusted loss/earnings per share – basic loss per share from continuing operations adjusted to exclude amortisation of acquired intangibles £nil (May 2021: £0.3m, Nov 2021 £0.5m), exceptional impairment costs £nil (May 2021 £nil, Nov 2021 £1.4m) exceptional reorganisation costs £0.1m (May 2021: £0.8m income, Nov 2021 £1.6m), acquisition costs £0.1m (May 2021: £nil, Nov 2021: £nil), and share-based charges £0.3m (May 2021: £0.2m, Nov 2021 £0.4m) net of the related tax charge £0.1m (May 2021 £0.1m credit, Nov 2021 £1.3m).

6 Underlying support/admin costs – administrative expenses adjusted to exclude depreciation and amortisation of development costs £3.0m (May 2021: £3.8m, Nov 2021: £6.8m), amortisation of acquired intangibles £nil (May 2021: £0.3m, Nov 2021 £0.5m), exceptional impairment costs £nil (May 2021 £nil, Nov 2021 £1.4m) exceptional reorganisation costs £0.1m (May 2021: £0.8m income, Nov 2021 £1.6m), acquisition costs £0.1m (May 2021: £nil, Nov 2021: £nil), and share-based charges £0.3m (May 2021: £0.2m, Nov 2021 £0.4m).